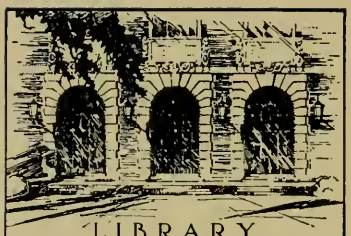

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TWO

Supplementary Letters

(Being the 5th and 6th of a Series)

ON THE

CIRCULATING MEDIUM

OF

The British Isles;

ADDRESSED TO

The Editor of the Royal Cornwall Gazette,

AND

ORIGINALLY PUBLISHED

IN THE

Numbers of that Paper for 13th, 20th, and 27th Feb. 1819;

WITH

A Summary of the Contents

OF EACH OF THE SIX LETTERS PREFIXED:

Wherein certain objections to which the Counters as proposed in the former Letters were open are entirely removed, and *no* temptation in any possible fluctuation of the relative value of the precious metals is left to the Melter or Exporter on the one hand, or to the Coiner on the other, excepting by imitations in less pure metals, for the detection of which an easy method is suggested.

Containing also some Observations on the General Principles of Currency—the Bank of England—The Restriction Act—and on the before suggested Establishment in London of a State Bullion Bank, and of Branch State Bullion Banks in the provinces.

TRURO;

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LETTERS

ON THE

Circulating Medium.

LETTER V.

Thursday, Feb. 11, 1819.

SIR,

In my second letter on the currency I observed that any reduction in the intrinsic below the representative value of the proposed *gold* counter, which, in the event of gold being wanted for exportation or manufactures, would pay the holder for the trouble of exchanging it for bullion, would suffice to protect that branch of the coinage from the melter and exporter; but that as the *silver* counter was only representative of and convertible into a given portion of gold, and any fluctuation in the relative value of silver and gold bullion in favour of the former, to a greater amount than the reduction in the intrinsic value of the *silver* counter below its representative, must consequently offer a temptation for melting down or exporting it, that reduction could not be less than 20 per cent. with a probability of making it permanently safe; and that I would therefore suggest, for the sake of

uniformity, and a regard to the customary proportional value of the gold and silver branches of the coinage, a reduction to that amount in them both.

But the importance of lessening to the utmost every temptation to illegal coining ought to outweigh every minor consideration; and if such reduction in the silver coinage were unavoidable, it should, though forming part of a system on the whole far less pregnant with evil than the old; it should, I say, itself be considered a great evil, and only submitted to from necessity.

Having then at first entertained and even publicly suggested, the idea of such a reduction in each of those branches of the coinage, I beg your permission at once, and through the same channel, to acknowledge my error in ever having thought of that measure with regard to the *gold* branch, and in atonement to offer an expedient, for, as I trust, safely dispensing with it in *both*; attended indeed by some apparent inconveniences; but which I believe to be more than compensated by its advantages, and capable of being, in a great measure, obviated in practice.

I believe it is in the nature of things *impossible* excepting by such reduction, *to protect the silver coinage from dangers* arising from fluctuation in the relative value of gold and silver bullion *as long as that coinage shall continue*, as it has

always hitherto been, *solely representative of and convertible into a given portion of gold in a limited fixed ratio.* Did no ill consequences result from this old custom of fixing the relative value of the gold and silver coin without regard to and amidst the never ceasing fluctuation of that of their respective materials, convenience would certainly recommend an adherence to the custom, for it would then be attended with a real, not as at present a fallacious convenience, betraying us into a thousand evils; but as the case really stands, to suffer ourselves to be shackled by this custom would be mere folly.

Let then all accounts be kept, and bargains contracted as heretofore, in pounds, shillings and pence: but let the shilling, equally with the French livre, *and the pound sterling, have in future no existence but in accounts, and the silver currency be supplied by counters representative of, and optionally exchangeable for an ounce, a half, a quarter, and an eighth of an ounce, of silver, and (as likewise the gold counter,) be under but as near the weight represented as may be with assurance of the holder's preferring the trouble of exchanging it for bullion to the loss he would sustain by the use in manufactures or the exportation of the counter itself.* This currency might be originally issued in exchange, partly for the silver bullion represented by it, and partly for

the present silver coin: in the latter instance *at a rate to be determined by the average prices of silver bullion in a certain number of markets taken from sworn returns made up to the latest period: and might be made a legal tender, to the amount of* say *six ounces, according to such average, till the last day of the current quarter of the year: some weeks prior to which the average of a like number of markets to the latest convenient period should, by proclamation in every town, fix the legal value for the next subsequent three months, and so successively.* These counters, thus varying in value and in exact ratio with the silver bullion represented by them, for which (suppose in 20 ounce or in 40 ounce stamped bars, and above,) they should be legal demands on the Establishment, *could offer no temptation to the forger, the melter, or exporter;* and though they would be attended with some inconvenience to trade from their fluctuation in value relative to the gold coin, the periodical establishment of their legal value in small payments from one quarter day to the following, as proposed, will greatly qualify that inconvenience, and I hope remove every serious objection. Supposing a favourable season for repealing the Bank Restriction Act to have occurred: let the nearest sum in pence and farthings to the market price of *the eighth of an ounce* of silver bullion be made the temporary standard

value of that branch of the currency, and multiplied by 2 and 4 for the half ounce and ounce counter respectively, (thereby avoiding the embarrassment that must arise from the fractions which the division of the price of the ounce would frequently give in the adoption of the opposite method:)—a coinage of farthings, (otherwise much required for the accommodation of the poorer classes in their petty retail dealings) be provided: the copper currency continued as at present a legal tender to the amount of twelve pence: and £5 and higher notes, manufactured with superior skill, be got ready; and every necessary preparation for the issue of both the gold and silver branches of the proposed currency will have been made: when their circulation commencing under the auspices of the New System and Establishment, the national currency and the morals of the people as connected therewith will be equally protected, and with due precaution, I should think the necessity for the Bank Restriction Act not *likely* again to recur.

Bullion, it must be obvious, would, under this system, as at present, only be exported for its full value. Small sums of the proposed currency also would indeed, on this less reduction of intrinsic value of the counter, be for convenience sometimes exported, but evidently, were the seignorage or reduction of intrinsic value

greater than the cost of coinage, at a profit to the State, and at any rate, on account of their higher current value here than abroad, probably soon to return.

I have argued on the supposition of gold bullion being preferred for the final standard of the currency, but were silver so my reasoning would be equally conclusive; and reading gold and silver mutually each for the other, the result precisely the same.

In these counters, *whether gold or silver, supposing their reduction of intrinsic value not to exceed a sufficiency for covering the expence of coinage*, (and on the Establishment of Branch Banks, the facilities they will afford for the optional conversion to bullion considered, no greater, it may be presumed, would be requisite for their protection from the opposite danger,) there can, (as I observed before of the *silver*) be *no* temptation for illegal coining: excepting it be with a partial use of the baser metal, which will very easily be detected. Such imitations, indeed, might possibly be made of the same weight with, and so like the genuine counters, as to deceive the inexperienced. But different metals varying in their specific weight, the adulterated coin, of like weight with the true, must be larger or smaller than it, in exact proportion to the specific difference of weight in the base metal and in the quantity of the pure whose

place it usurps: and as, of two masses of different bulks, balancing each other in the ordinary method of weighing, the larger would be sensibly more buoyant in water; the easily provided apparatus of a water balance, if kept by the bankers and other principal money dealers, (through whose hands, most of the gold and silver currency frequently passes in its circulation) for the occasional proof of the counter and the ingot, would almost prevent the possibility of a successful prosecution of that fraudulent practice on the currency.

At present I will say no more of the counters; but there is another question relative to the currency, without a due consideration of which all the preceding discussion (were it at all probable that the suggestion of an anonymous individual could be adopted precipitately and without previous examination of the circumstances) might prove worse than useless. In my original communication to you I had no other design than to lay before the public in your pages the sketch of a plan for changing the system of our currency; and when I was afterwards induced at different times to trouble you with a farther development of it, and its examination in different bearings, and finally, to describe at large *how* it might be brought into operation; each letter being intended for the last, and to form part of no *general* inquiry, I still omitted to

examine *whether*, and if so, *when* it would be proper to put it in execution, and to withdraw the Restriction on cash payments; as considering that part of the subject already decided on by the legislature.

As, however, no more would necessarily follow from a repeal of the Restriction Act than the *option* of converting the Bank notes in general into specie: which would neither necessarily, nor even probably, cause all the smaller notes to be withdrawn from circulation; and at any rate would leave the temptation for melting down or exporting the coin wholly unchecked, my then more limited object was still one of great interest and such as I trust will sufficiently apologize for every honest effort for its attainment. But having now, with a view of submitting to the public a supposed improvement of that plan, taken the liberty of again soliciting your indulgence, allow me to make use of the opportunity for entering into an enquiry respecting the resumption of cash payments (since I find the idea of a farther prolongation of the Restriction Act for an indefinite period is at present in contemplation); and (as intimately connected therewith) that of the motives in which that Act may be presumed to have originated; before entering on which it may be well to make some prefatory observations on the nature of currency in general.

I would not be understood to entertain the preposterous idea of wishing, on the expiration of the Restriction Act, to prevent the exportation of gold bullion.—Such an attempt would doubtless be impracticable, and if practicable, by no means desirable. Allowing for the comparatively small portion of the precious metals (particularly gold) consumed in manufactures, they should not generally be considered the ultimate object of commercial pursuit, but solely as part of a circulating medium, or in other words a means for the acquisition of things useful to the support or convenience of life. It is their exportation or domestic transfer in exchange for such articles that really enriches, and the exchange of our superfluities for them is, with the exception before noticed, advantageous only as providing means for the prosecution of that directly profitable barter. We have only then to guard against the exportation of the precious metals trenching too much on the domestic demand; (which last is more important in proportion to its more frequent recurrence) and as I have formerly shewn that the cure of that evil would commence from the moment it was felt, through their now greater value for home, in a general view, than for foreign commerce, the increased demand by foreigners for our now cheaper produce and the operations of the Bank: such exportation might

be continued in each branch of commerce where it was still advantageous to the merchant, without, as I conceive, endangering a seriously inconvenient scarcity at home—and would meanwhile tend to quicken our own powers of productiveness.

The resources of a country are only limited by the number of its people, the extent and fertility of its soil, and the means natural and artificial of improving that soil and its produce, and of exchanging the superfluous part of the latter for foreign produce that may mediately or immediately be more for its advantage. Now an *excess* of currency, it has been shewn, increases the price of each article of produce, and checks the foreign demand; but on the other hand, as *facility of production* is the only permanent criterion of value, wherever that is greatest the article will, *in a free international circulation of specie,* be on a general average of markets cheapest; and that country will consequently be able to undersell its neighbours, and insure more extensive orders for its produce, and finally add more to its own *real* wealth in the returns. But *that facility depends much on division of labour for which great Establishments and a command of money are necessary.* Whilst therefore, the currency, *may be* too abundant, it is evidently requisite in *certain circumstances* to guard against an occurrence of the opposite extreme. In a natural state of

things care would be superfluous—specie in a free international circulation would find its level, and that level would be determined by the relative proportion of productiveness in soil and industry of the respective states: the superfluous currency of the poorer being disposed of in conveniences, of the richer in luxuries and magnificence.

Should peculiar circumstances cause at any time such a superfluity, whether in paper or in coin, it should be withdrawn from circulation; and its being so withdrawn would be advantageous at once to the Government and to the people. It could however in neither instance be permanent but from a too great and indiscreet issue of non-convertible notes or counters, and the evil in both would be *precisely the same and two-fold;* namely, the immediate and the future—of them the former will consist first in the comparatively trifling inconvenience on the necessary rise of prices of every individual being obliged to incumber himself with greater sums of money for like purposes than in the natural state of the currency: next in the more serious one of a diminution in the real value of all receipts under contracts made before, or in a less advanced state of the depretiation, among which must be classed rents, salaries, annuities, and money bargains of every kind, and, above all, *the Government Annuities.* This latter incon-

venience would, indeed, be less felt, and would be actually less in proportion as it had been longer in its gradual rise. But the most formidable evil is in the *consequences*; on the currency being suffered to resume its natural level the converse of all this must take place, *more distressing in the re-action*, which, unless it may be prevented by some strong and early precautionary measure on the part of the legislature, must after any considerable depretiation of the currency, be sudden and violent in the extreme.

A rise in the comparative value of gold to such forced currency of whatever material, is, however no decisive proof of depretiation in the latter—The Bank note may have retained its relative value to produce in general. *This* is its *real* standard, on principles drawn from true reason, and the nature of things; gold being only an imperfect substitute for it, highly convenient indeed, as being something tangible and easy to be referred to, but (seeing the facility of its production from the mines and consequently its relative value to other produce varies with circumstances,) not to be precipitately re-adopted after long disuse or without regard to the rise or fall in *real* value it may have suffered in the interval.

To this reasoning I shall refer, when I come to speak of the Restriction Act and the resumption of payments in gold; but as I foresee that

these questions will involve a large field of enquiry, and would extend this letter, already long, beyond all reasonable bounds, I shall defer the consideration of them to another, which I trust, will finally relieve you from this too protracted correspondence.

I am &c.

Y. Z.

LETTER VI.

Tuesday, Feb. 16, 1819.

Sir,

According to the intimation in my last letter, I will now, by your permission, attempt some examination of the question whether, and, if so when cash payments may safely be resumed, and the change of system and the national establishment recommended under a presumption of that measure taking place, commence their operation.

In order to this some previous understanding of the principle of the present Bank of England Establishment, and of its connection with the Government, seems indispensible.

The Corporation of the Bank of England then, is a joint stock company of Money Merchants, incorporated about 120 years since by Royal Charter, for the accommodation of the public (particularly the commercial part of it) and of the State; — limited originally as to time and stock to a term of years, and to a certain extent

of capital;—of which they have been allowed to renew the first, and to enlarge the latter, in return for various loans, and other financial arrangements beneficial to the Nation; and been privileged as the sole *Corporation* of Bankers in the Kingdom. Their stock may be supposed to have originated in a certain per-centage on each share, in the currency of the country and in bullion, and the remainder in good securities bearing interest, all placed at the disposal of the body of directors under certain established regulations.

With a great stock at command, and under the credit of their known responsibility, they were of course enabled to commence the business of discounting bills of exchange, purchasing and selling foreign coins and bullion, &c. &c. on a respectable scale, making the advances partly in the currency of the country and partly in their own bills; always taking care to reserve enough of the former in their coffers for redeeming the latter as presented, and to receive a reasonable per-centage in discount for covering occasional losses in particular transactions and the expences of their establishment, and returning a fair profit to the subscribers.—As the public became familiarized with it, the Bank paper would gradually be considered as part of the established currency of the country, and be generally preferred in trade for its greater faci-

lity of conveyance.—Meanwhile they might, in the course of these transactions, reserving sufficient coin and bullion to meet all probable demands, and under such other precautions as the above, have converted their capital chiefly into bills of exchange and such other property as made the quickest returns, and the greatest profit — and having begun originally with a capital of about two millions, the superior convenience of such large means of accommodation beyond all private firms must have insured them constant applications from merchants and manufacturers for loans, to enable them to anticipate their returns, and to go into the market for fresh purchases : the number of applications have given them means of disposing of their money with due attention to the responsibility of the parties ; and their opulence to disregard all temptation to break through the provident regulations of the establishment for gambling speculations. Their gains accordingly seem to have been steady from the first, enabling them after payment of their dividend still to add to their floating capital: and at various times to apply part of the profits of their thus improved trade to the purchasing a renewal of their term, and licence to enlarge their chartered stock ; and with the remainder proportionably to increase that stock itself (on which they declare their dividends) till it reached the amount of

about 12 millions, besides a permanent debt of little inferior nominal value, from the Government. The last purchase renewed their term for 31 years, of which about 14 remain unexpired. At two examinations of their accounts in 1797, (the year in which the Restriction was laid on,) they had in Cash, Bullion, Exchequer Bills, Bills of Exchange, and other easily saleable floating capital, nearly four millions more than the amount of their out-standing demands, independent of the above-mentioned permanent debt from the Government. It was observed that their privileges and the renewal of them have been conferred in return for the grant of large loans to the Government on peculiarly favourable terms, and of various money accommodations of great extent and importance. Among these we have particularly to reckon a general payment in advance of the yearly taxes on the Land and on Malt &c; the making a like advance on, and putting in circulation, Exchequer and other Government Bills, to the total amount of from 8 to 10 millions. But, as these mutual grants and accommodations are *optional*, all such advances to the State as well as to individuals, are of course made with proper regard to their remaining means for meeting all legal demands on their funds.

The amount of their Notes in circulation in 1797 was little more than 8 millions, since

increased, under the Restriction Act, partly to replace the coin, partly in an undue extension of a forced currency (which, however, without some limit to the issues of Country Banks, no self-denial on the part of the Bank of England could have prevented) to nearly 30; but besides that the gains of the Establishment must meanwhile have been immense and their opportunities of purchasing bullion peculiarly favourable from the sudden decrease of its demand for coin through the influence of the Restriction Act over so large a commercial nation (of which they doubtlessly availed themselves sufficiently for their own security)—they had already at the second examination in 1797 increased their bullion from about one and a quarter to 6 millions under the Restriction, add to which their effects are all personal and by law answerable to make good their pledges, and including the Government Annuities at the time of the inquiries exceeded their debts two-fold. My information as to the amount of those Annuities and of their capital stock does not reach to a very recent date.

Through this Establishment, Government and Commerce have equally been in the habitual practice of anticipating their revenues, and frequently at critical moments, collecting and concentrating their resources for some great object of policy or profit: each in its depart-

ment thus advancing in a double ratio the success of their respective operations for their own and the country's good.

It would seem, from the observations in my former letters, that a permanent superfluity of the currency, even in the precious metals, would be at best an incumbrance *did it ever occur:* but that in such a currency it never could.—In a country opulent as this was at the imposition of the Restriction, neither was the opposite extreme much more to be dreaded, excepting from impediments to the natural course of currency, originating in great political convulsions, or in domestic or foreign legislative control—When that measure was resorted to, it was not *immediately* requisite for the protection either of the *Bank* or of *Commerce:* but seemed meant as an expedient whence the State might, on an unexampled emergency, anticipate its revenues on a larger scale, in order to make an effort commensurate with the occasion.—But, supposing for a moment that the late contest could have been, and actually had been, carried on without any legislative interference with the *Bank*; the necessities of the State and of the people would, in taxes, forced loans and money payments for corn &c. have soon absorbed all the floating capital of the country, and have finally dissipated it in foreign loans and expeditions and commercial payments, which, (the want of

a command of money amongst our great manufacturers and merchants and the closing of half the continent against our produce concurring in the destruction of our former advantages in the market) there would then have been no possibility of recalling in a balance of trade; and, next to the floating capital, and for want of its support, that part of the national wealth vested in the extensive buildings and machinery of the master manufacturers, and other great employers, must have rapidly fallen to decay, and thus all hope of a quick recovery from those unhappy effects of the war have been precluded. Yet these consequences, however grievous, should resolutely have been incurred and patiently endured, even for a chance of protection from so ferocious an enemy, and his demoralizing system, *could no expedient have been found for defending ourselves at a less sacrifice.* What then do we not owe to the sagacity and decision of that statesman, who, by a measure of great political responsibility, and which indeed no other circumstances could have warranted, not only saved us from subjection to the most unprincipled tyranny, but enabled us to come from the contest with an accession of national prosperity and honour, as the acknowledged saviour of the continent?

A parliamentary inquiry had ascertained the sufficiency of the assets of the Bank for con-

tinuing its payments; and from the limitation of its *necessary* expences to the support of its buildings, and to the salaries of its officers, no other consequences, in the prudent management of its affairs, could have been reasonably apprehended, from the current of political and commercial distress, than a necessity for greatly reducing the proprietors' dividends, *till it perhaps finally, with the nation, fell a sacrifice to an invader.*

A restriction, then, could, we may believe, under no circumstances have been necessary for the protection of the Establishment, *considered in an insulated point of view;* neither in *any ordinary emergency* could it have been either necessary or even advantageous for the country; which however I most sincerely believe it to have been in that wherein it originated. *Political expediency*, after the resumption of cash payments, may again command a recurrence to the Restriction Act; but, as I formerly observed, in all human probability, *nothing else*, unless it be the aggressions of anarchy or tyranny.

The result of the whole of this, I must confess, extremely loose and desultory reasoning, is that the circulating medium of commerce, *naturally* seeking its own level, would, but for the Restriction Act, have been, by *the unexampled circumstances of the times*, diverted and withheld from this country, to the rapid destruc-

tion of our floating capital and with it, or as a consequence, of every source of our superiority in the scale of nations above the poorest country of equal population and fertility, leaving besides, (an evil not incident to States not previously rich) a large portion of its manufacturing population unemployed and a dead weight on the agricultural: that the measure was never necessary, (with regard to its solvency) to the Bank itself, which might have continued, and might now quickly resume its payments in specie: but that under the influence of this measure we have maintained, and (as combined with the events of the war, carried on through its aid, and the consequences of that war on other nations) rapidly increased our wealth and moral or artificial resources; and might safely *as a people (could we overlook the consequences to individuals and the State) return to cash payments as soon as the causes for originally laying on the restriction ceased to operate:* that among those causes however, must be classed all contracts for loans to foreign powers from this State, or that the State thinks itself compelled by a liberal and just policy to leave its private capitalists the power to complete, and which the revulsion arising from a sudden return to cash payments must have rendered abortive: and this from no regard for the interests of the contractors, who, if not acting with the sanction of the legislature or

the Executive, are far from meriting national protection, in a measure of such political delicacy and importance.

But our attention is powerfully called to another consideration, namely, that if, during the long continued forced circulation of paper, our currency necessarily (as being unconvertible) confined to this country, has been improvidently suffered to increase beyond its due proportion to the extent of our real commercial resources as compared with those of the rest of the world, (amongst other preparatives) *the excess must gradually be reduced before the restriction can be withdrawn; unless we chuse to incur a great internal convulsion and incalculable individual distress.*

Supposing, for argument sake, our forced currency were of double the amount of our due share of a common medium of commerce, how could we, on the currency finding its natural level, make good our mutual domestic engagements contracted under such different circumstances? Rents, salaries, annuities, commercial and other debts, all bargained for under the paper currency, would be demanded in a currency, which, being but half as abundant, would consequently be, in any given sum, of double the *real* and market value; and the parties would in law be liable to pay really double what they had contracted for—and in general,

double as much as it would be possible for them to pay.

It would indeed be of little importance, *things having once found their level*, whether an ox were, as under the forced paper system, sold for £20, or whether it and every other produce were sold for specie of half their late nominal value, provided the coin were subdivided in the smaller currency for the convenience of the market. But a too precipate change must, in such circumstances have terrible consequences on our domestic relations. The forced currency, therefore, cannot prudently be superseded for specie, or a currency of convertible tokens, without the utmost previous care gradually, and if the difference be very great, slowly and in a course of many years, (combined perhaps with some legislative measure in favour of those who had, in a reliance on the permanency of value in the then currency of the country, improvidently taken long leases, and contracted for distant payments) to effect the nearest possible approximation of the forced paper currency, in aggregate amount, to our due proportion of the general currency of the great Commercial Republic, after which, if at any time the balance of trade were steady and not unfavourable, and a sufficiency of the precious metals secured for replacing the portion of the paper currency intended to be super-

seded and for supplying all losses and wear of the coin itself in its circulation—a favourable opportunity would, at first view, seem presented for a general re-issue of specie. Meanwhile, and in furtherance of this object, the currency will be brought nearer to its level (though interrupted in its spontaneous tendency thereto) in an accelerated ratio, through the loans to foreign powers increasing the currency of neighbouring countries, whilst the proposed reduction of issues decreases our own. This *general reduction of issues*, however, *can only be effected by legislative interference, which might,* if approved of, *be exercised in limiting every existing Bank in its issues of each year to the average amount of so many preceding years; and a refusal to license any* NEW. But though the Bank of England being answerable only for pledges already issued *could* redeem them in the present legal coin (and considering the great profits they have derived from the excessive issue and non-payment under the Restriction Act, would have no right to complain, were it required to do so) yet, agreeably to the principle advanced near the conclusion of my last letter, such payments might greatly exceed in *real* value sums of the same nominal amount at the commencement of the Restriction, (a comparison with which is the only just method of estimating the relative value of the present paper currency and of

gold:) since the growth of the aggregate of the circulating medium of international and general commerce may, by the peculiar circumstances of the times, have been prevented from keeping pace with that of the commerce itself. And, if it be true that the present supplies from the mines are inadequate to the support of a currency in specie, even of the actual limited extent, the precious metals must daily increase in value, and, on the additional demand for the maintenance of the domestic circulation of this country, and for its foreign commerce, would necessarily make a farther most rapid and abrupt advance. The discounting Bills of Exchange and Exchequer Bills being optional, it would of course be no longer done but on terms suited to the scarcity of coin, and Government and commerce would equally suffer from that cause; but the greatest evil, (as I observed in my prefatory remarks on the *general* principles of currency), would be the advance in the *real* amount of every debt contracted before the resumption of cash payments, particularly during an over-issue of Bank Notes; *and under this head is to be reckoned the national debt.*—The actual difference of relative value of the Bank paper and of gold is not very great—but under present circumstances the resumption of cash payments might advance its proportional value to other articles of consumption, very

probably to as great a height as at any time during the late war, and that daily to increase: and where bankruptcy did not intervene, creditors, as well the State as individuals, would be continuing to pay *really* at a ratio perhaps of 40 per cent. (and that increasing) more than they borrowed, though nominally to the same amount; for which evil, as it affects the Government, it could find no counterpoise in the greater real than nominal value of the taxes, without great injustice and oppression. Meanwhile we should in few instances have the satisfaction of considering this a restitution to those, who, having property in the funds prior to the Restriction, had suffered by that measure and the over-issue of Bank Paper; most of them, probably, having already sold out at war or at least forced currency prices.

The resumption of payments is a question of great delicacy. Commerce both domestic and foreign has undoubtedly very much increased and is daily increasing (and that in part by drawing the most distant and heretofore uncivilized nations into its circle) in its *real* amount and value (not merely in the office sense of the word, as referring to the present currency for a standard, but estimated by tonnage and cost of *labour)* and it is no less certain that elegance and luxury have greatly extended their sphere of action, as in other things so in the demand

of the precious metals for manufactures: whilst for these uses and the extension of the currency of specie, *on the old scale*, it is more than probable that the produce of the mines has of late been inadequate.

Nevertheless some way may, perhaps, be found for obviating these difficulties, and returning to metallic currency, without exciting a dangerous re-action; and if so, I think there can be no doubt but there ought.—More need not be said of the evils resulting from a currency of small notes—but, without an option of conversion into the only tangible standard, it will not be easy to prevent a great fluctuation in the value of the *paper currency in general,* and though with an ever vigilant and judicious superintendence this may, possibly, be done, the very necessity for such care proves the state of things to be unnatural, and bids us endeavour to restore them to one in which it would be no longer requisite.

How then is this object to be effected? There are two expedients that readily suggest themselves; both on the same principle, embracing at once justice to all parties, and a cure for the existing evils: but I fear, though the first was practically adopted, almost generally, as to the amount of rents on unexpired leases in a late rise of our present currency as compared with our home produce; yet, were the principle by a

legislative enactment applied, on a resumption of cash payments, to all prior contracts (that might appear to have had the value of the forced paper currency in view) with regard to the actual coin of the realm, on account of the greater *real* than nominal value of the latter; I fear, I say, that, independent of prejudice, there would be insuperable difficulties to contend with; no small portion of which would arise from the confusion of accounts that would unavoidably ensue. The other expedient is *to make the sovereign of an intrinsic value justly corresponding with the quantity of merchandize* &c. that, after a careful and well conducted examination, from the best authorities, of the aggregate amount of the circulating medium of the great Commercial Republic on the one hand, and of its trade on the other, it may actually represent, on some such plan as the following; which I merely beg leave to suggest, without presuming to decide how far it may be practicable.

PLAN.

First—To wait the effects of a return of peace in Spanish America, and the consequences of a more open commerce with that country, and of the introduction there of our improved method of mining: as likely to cause a progressive increase of bullion for the market commensurate with the extension of commerce:

And, whenever by the returns of the bullion imported thence, and from other mines, it may be judged that the average yearly supplies are sufficient to replace the consumption (and if the produce of the old mines, from a continuance of the disturbed state of the South American Provinces, or from other causes, prove inadequate, much may be expected from British enterprize, capital and mining skill, in the infant discoveries in Africa and elsewhere :)

Let the quantity of bullion and specie in the European market be accurately estimated :

Next: Let the relative amount, from official returns, of our exports and imports, and of articles subject to the excise, for the seven years immediately preceding the war, and for the last seven years, to the nearest convenient period to that of the proposed resumption of cash payments be ascertained :

Then the amount of gold and silver coin in circulation on the average during the former period :

And *finally*, from these and other criterions of the relative demands for currency in the two periods, let an estimate be taken of what portion of the bullion and specie would remain with us on the international currency finding its natural level ; and (the currency of Bank Notes being meanwhile reduced to a similar proportion) *the sovereign be made of such weight as to*

enable us, out of our due share of the precious metals, to put in circulation a currency increased in nominal aggregate value beyond that of the period preceding the war, in the exact ratio of our increase of commerce: which in my view of the case, (and I believe that of much better judges) is the only just standard of value, and to which every thing must *ultimately* be referred.

On reflection, I find myself in this plan (a circumstance of which till now I had entertained no suspicion) getting very near the idea adverted to toward the close of my fourth Letter. Were the *paper currency of this country first brought as a whole to its due comparative amount with the aggregate currency of the great Commercial Republic:* the average paper price of gold bullion in our markets would not only, as there supposed, be a fair temporary criterion for the convertible value of the note into specie, but that for a *permanent resumption of cash or metallic token payments.* But without a previous restoration of the medium of commerce to its natural level, we should leave Bankers the power, by an increase of their issues, of paying us for a given sum in their paper with one ounce of gold instead of two: and that through a real depretiation in the former, effected at so much unqualified and unjust loss to their creditors and gain to themselves.

When speaking of the inconveniences to the currency resulting from the fluctuation in relative value of gold and silver bullion, I have sometimes, as well in my former observations on the above suggestion as elsewhere, been inadvertently led to consider the price at which the guinea was bought up by speculators in exchange for our silver currency as a criterion of the amount of that fluctuation. It was a criterion in truth only of the fluctuation between the guinea, or rather gold bullion, and our paper currency, the former of which would soon have been followed to the crucible by the silver coins also, but for the great debasement and loss of weight in this part of our currency ; and, this circumstance notwithstanding, in fact was by the crown and half crown pieces that had suffered less comparative deterioration. The Bank of England Note was then, and under the Restriction Act must still continue, our sole substitute for gold as a tangible standard of value. The extent of fluctuation in the relative value of gold and silver bullion at any period under that Act is only to be learnt from their comparative market prices, which can have no reference to the intrinsic value, *but to the representative with regard to the Note*, of any part of the metallic currency; even of gold coin itself, if any still remain in *circulation*. A less reduction of relative intrinsic value in the silver coinage might

then possibly suffice to preserve it to the circulation, but my arguments against the principle of affixing to it an unvarying proportional value to the gold remain unshaken.

To conclude: In order to shew the practicability and safety of making a *specific* change of system in our currency, and of transferring its agency to a national establishment, I have, in a former letter, offered in detail a plan for putting in circulation metallic tokens for the resumption of cash payments, and gradually bringing that system and establishment into full operation; and in the beginning of my last, have proposed an amendment of that plan. This system has not, indeed the advantages in point of economy that the old possessed: but were all other objections to the change obviated, we should be ill-justified in obstinately persisting in the latter, and continuing to make yearly sacrifices of hecatombs of our fellow-men on the altar of Mammon.

If then such gold and silver counters, as described in this and my last letter, offering *no* temptation, in either of those branches of the proposed currency, and in any fluctuation of the relative value of gold and silver bullion, to the forger on the one hand, or to the exporter or melter on the other: if, I say, such counters, (representative, as to the gold, either of the actual legal standard, or of one to be established

on the only just principle, namely that of its relative value to produce in general;) with £5 and larger notes, of an improved manufacture, were adopted, in combination with a system and establishment such as I have ventured to suggest; and through their agency, and on the first favourable opportunity, payments in the precious metals were resumed; I conceive, yet with all deference to men of more knowledge and experience, we might congratulate ourselves on having, in the *old system*, rooted from our soil, a plant that has long continued to shed unwholesome dews from its widely-extended branches, and to obstruct the genial influence of the atmosphere, and might confidently hope soon and long to enjoy health and refreshment under the shadow of the *new*.

It is readily acknowledged that the old tree has formerly produced excellent fruits, of which we had the advantage of *pre-emption*. But surely that gardener would be thought very unwise, who from term to term gave another the privilege of planting fruit-trees amidst and to overshadow his crops, without reserving to himself a right to prune them; and who, not calculating on their growth, pledged himself for the purchase of their whole produce. The trees and the crops amidst which they grow should be one property, and under one management; or the interesst of the proprietors will undoubt-

edly clash. But the owner of the soil will have himself only to blame if he voluntarily *renews* such an unequal and disadvantageous contract, and exposes the value of his own toil and industry to the arbitrary control of one whose interests are wholly distinct from and often opposite to his own. These remarks are not meant exclusively to apply to the Bank of England. I have on the contrary before observed, that no forbearance on the part of that respectable corporation could have prevented the evil resulting from the late over-issues, whilst every needy adventurer thought himself at liberty to prey on the credulity of the people, and their eagerness to extend their various trading speculations; and that through advances in too frequently never to be redeemed pledges given in consideration of real securities. Accordingly, my views to amendment have not been confined to the substituting a new Establishment for that of the Bank of England, but have looked to an extension of the former in its branches to the provinces, and, through a qualification of the licences to Country Banks, to enabling the State gradually to appropriate to itself, if thought expedient, the whole banking business of the United Kingdom. We need apprehend no embarrassment to trade from thus superseding the present Bank Establishment; since the National Bank, simultaneously with the issue of

its pledges, will have realized a large fund both for its creditors' security and for discounting bills; and the State will, on the credit of the taxes, be able to place as much greater a capital at the disposal of the Commissioners for those purposes as may be consistent with the public good; and any capital withdrawn by the present Bank Proprietors, though diverted to other channels, will not be lost to the country. Great trust must be lodged somewhere; but where so well as in a responsible ministry and the representatives of the people?

The increased issues of the Bank of England during the late war were probably at no time more than sufficient to replace the specie exported in loans &c; and, its solvency considered, there would, but for like issues from Country Banks taking place at the same period, have been no counterpoise to their practical utility, but that comprized in the temptations therein offered to the forger; whilst, on the other hand those of the Country Banks were preferable to them in this latter respect alone; the signatures being better known, and the proprietors better qualified by local facilities to observe and check every attempt at fraud in the more limited circulation of their respective pledges. But, had there been no increased issue from Country Banks, we are not assured, neither is it probable, that the Bank of England would have extended

theirs no farther ; whilst every advantage peculiar either to the Bank of England or the Country Banks, together with those of the improved note, national emolument and legislative control on the whole economy of the Establishment, are combined in the proposed State and State Branch Banks—or easily may be so by the addition of simple and unobjectionable regulations.

I flatter myself that, from the wisdom of Parliament and the highly commendable zeal of the Bank Directors, we may look forward with undoubted assurance to some *palliation* of the actual evils, in an early and considerable improvement of the whole of our paper currency ; but a resumption of cash payments and total change of system are the only *radical cure* ; and nothing should cause us to lose sight of this, as our ultimate object, even for a moment.

Begging pardon for so much trespassing on your patience, I remain, Sir,

Your very humble Servant

Y. Z.

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